IFRS® Accounting

November 2023

Exposure Draft—Snapshot

IFRS® Accounting Standards

Financial Instruments with Characteristics of Equity

Amendments to IAS 32, IFRS 7 and IAS 1

The IASB's objectives

The IASB aims:

- to improve the information a company provides in its financial statements about its financial liabilities and equity instruments within the scope of IAS 32 *Financial Instruments: Presentation*; and
- to resolve application issues companies have when applying the classification requirements in IAS 32.

Proposals

The IASB proposes amendments:

- to clarify the requirements and underlying principles in IAS 32 for classifying financial instruments;
- to amend IFRS 7 *Financial Instruments: Disclosures* to require disclosures about financial liabilities and equity instruments within the scope of IAS 32; and
- to amend IAS 1 *Presentation of Financial Statements* to require separate presentation of amounts attributable to ordinary shareholders.

Next steps

The IASB will consider the comments it receives on the Exposure Draft and then decide whether to proceed with the proposed amendments.

Comment deadline

29 March 2024

Introduction

The classification of financial instruments as either financial liabilities or equity instruments in the statement of financial position could affect the key financial ratios of a company, such as solvency and liquidity ratios. The financial innovation, market forces and changes to financial sector regulations have resulted in a growing number of complex financial instruments being issued with 'debt-like and equity-like characteristics'. These complex financial instruments present challenges for a company applying IAS 32. Companies applying IAS 32 also sometimes find that the rationale or the basis for its classification requirements is unclear.

The International Accounting Standards Board (IASB) published the Discussion Paper *Financial Instruments with Characteristics of Equity* (Discussion Paper) in June 2018 to respond to the challenges stakeholders identified in classifying financial instruments in accordance with IAS 32. The Discussion Paper proposed a new classification approach to articulate more clearly the principles for classifying financial instruments as financial liabilities or equity instruments, and to improve the consistency, completeness and clarity of the classification requirements in IAS 32.

Feedback on the Discussion Paper indicated that IAS 32 works well for most financial instruments and fundamental changes to its classification requirements are unnecessary. However, stakeholders asked the IASB to clarify the classification requirements and resolve known practice issues that arise in applying IAS 32.

Having considered feedback on the Discussion Paper, the IASB decided not to pursue the proposed classification approach. Instead, the IASB decided to develop proposals focused on:

- clarifying the requirements, including the underlying principles, for classifying a financial instrument as a financial liability or an equity instrument;
- resolving known application issues, thereby improving comparability of financial statements and reducing diversity in practice; and
- improving how a company presents and discloses information about its financial liabilities and equity instruments in the financial statements.

The IASB intended to limit any changes in classification to financial instruments for which enough evidence demonstrates that such changes would provide more useful information to investors.

Contents

1 Classification of financial instruments

A—The effects of laws or regulations

What is the issue?

IAS 32 requires a company to classify financial instruments in accordance with 'the substance of the contractual arrangement' and the definitions of financial liabilities, financial assets and equity instruments.

IAS 32 also explains that 'contract' and 'contractual' refers to an agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid—usually because the agreement is enforceable by law.

Stakeholders asked the IASB to clarify whether and how laws or regulations (such as statutory or regulatory requirements) applicable to a financial instrument affect the classification of the instrument, such as:

- laws or regulations which create rights and obligations that:
    - are included in the terms of a contract (for example, when reproduced in the contract); or
    - are not explicitly included in the terms of a contract but are implied by law or regulation; and
- laws or regulations which prevent one or more of the contractual rights and obligations from being enforceable.

What is the IASB proposing?

The IASB proposes to clarify that in classifying a financial instrument as a financial liability or an equity instrument, a company:

- considers only contractual rights and obligations that are enforceable by laws or regulations and are in addition to those created by applicable laws or regulations; and
- disregards any rights or obligations created by applicable laws or regulations that would arise regardless of whether the right or obligation is included in the contractual arrangement.

In certain circumstances, a company might recognise and measure the rights and obligations that it disregarded when classifying a financial instrument as a financial liability or an equity instrument, applying other Accounting Standards.

1 Classification of financial instruments

B—Fixed-for-fixed condition for derivatives

What is the issue?

In accordance with IAS 32, a contract that will be settled by a company (the issuer) receiving or delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument. This circumstance is sometimes referred to as the 'fixed-for-fixed' condition.

Stakeholders asked the IASB to clarify whether:

- the fixed-for-fixed condition would not be met due to any variation in the amount of consideration to be exchanged or in the number of the issuer's own equity instruments to be delivered;
- a contract that allows a choice of settlement between two or more classes of a company's own equity instruments meets the fixed-for-fixed condition; and
- share-for-share exchanges—contracts that will or may be settled by the exchange of a fixed number of one class of an issuer's own non-derivative equity instruments for a fixed number of another class of such instruments—meet the fixed-for-fixed condition.

What is the IASB proposing?

The IASB proposes to clarify in IAS 32 that for the fixed-for-fixed condition to be met, the amount of consideration exchanged for each of a company's own equity instruments is required to be in the company's functional currency and either:

- fixed; or
- variable solely because of a preservation or passage-of-time adjustment (see page 6).

The IASB also proposes to clarify in IAS 32 that:

- if the contract gives one party a choice of settlement between two or more classes of a company's own equity instruments, an instrument is an equity instrument only if all settlement alternatives meet the fixed-for-fixed condition; and
- if a contract will or may be settled only by the exchange of a fixed number of one class of a company's own non-derivative equity instruments for a fixed number of another class of the company's own non-derivative equity instruments, the fixed-for-fixed condition is met.

1 Classification of financial instruments

B—Fixed-for-fixed condition for derivatives

The table shows the adjustments to the amount of consideration exchanged for each of a company's own equity instruments (made by adjusting either the amount of consideration to be exchanged or the number of the company's own equity instruments to be delivered for the settlement of the derivative) that meet the fixed-for-fixed condition.

Preservation adjustment	Passage-of-time adjustment
An adjustment to the amount of consideration exchanged for each of a company's own equity instruments that: • is made upon the occurrence of a contractually specified event(s) that affects the economic interests of the current equity instrument holders; and • preserves the economic interests of the future equity instrument holders to an equal or lesser extent, relative to those of the current equity instrument holders.	An adjustment to the amount of consideration exchanged for each of a company's own equity instruments that: • is predetermined at inception of the contract; • varies only with the passage of time; and • has the effect of fixing, on initial recognition, the present value of the amount of consideration exchanged for each of the company's own equity instruments.
Example	**Example**
An adjustment to the amount of consideration to be received on exercise of a warrant over a company's ordinary shares, to compensate a future shareholder fully or partly for dividends paid on ordinary shares, while the warrant is outstanding, is a preservation adjustment. However, if any such adjustment benefits the future shareholder to a greater extent than a current shareholder, that adjustment is not a preservation adjustment.	An adjustment in a convertible bond that states that in the event of a change in control of the company, the conversion ratio will be adjusted to compensate the bondholder for the loss of time value in the option—and the contract specifies predetermined conversion ratios that vary solely depending on when the change of control occurs and are proportional to the passage of time—is a passage-of-time adjustment. Although the adjustment is triggered if a change of control occurs, the adjustment is considered to introduce variability based solely on the passage of time, and therefore meets the fixed-for-fixed condition.

1 Classification of financial instruments

C—Obligation to purchase a company's own equity instruments

What is the issue?

IAS 32 requires that, if a contract includes an obligation for a company to purchase its own equity instruments, a financial liability is recognised for the present value of the redemption amount and removes that amount from equity. Examples include a forward contract to purchase a company's own shares or a written put option that gives the holder the right to require the company to purchase its own shares from non-controlling interest holders.

Stakeholders asked the IASB to clarify:

- which component of equity a company debits upon initial recognition of the financial liability;
- how a company measures the financial liability;
- whether the company recognises gains or losses on remeasurement of the financial liability in the statement of comprehensive income;
- whether a company applies the requirements to instruments that will be settled by delivering a variable number of another class of the company's own equity instruments; and
- how a company applies the requirements if a contract that includes an obligation for the company to purchase its own equity instruments expires without delivery (see page 8).

What is the IASB proposing?

The IASB proposes to clarify that:

- a company that does not yet have access to the rights and returns associated with ownership of the equity instruments to which the obligation relates, continues to recognise those instruments as equity instruments and removes from a component of equity other than non-controlling interests or issued share capital an amount equal to the initial amount of the financial liability;
- when measuring the financial liability (initial and subsequent measurement), a company disregards the probability and estimated timing of the counterparty's exercise of its redemption right and discounts the redemption amount to its present value assuming that the redemption will occur at the earliest possible redemption date;
- a company recognises gains or losses on remeasurement of the financial liability in profit or loss; and
- a company also applies the requirements relating to obligations to purchase its own equity instruments to contracts that will be settled by delivering a variable number of another class of the company's own equity instruments.

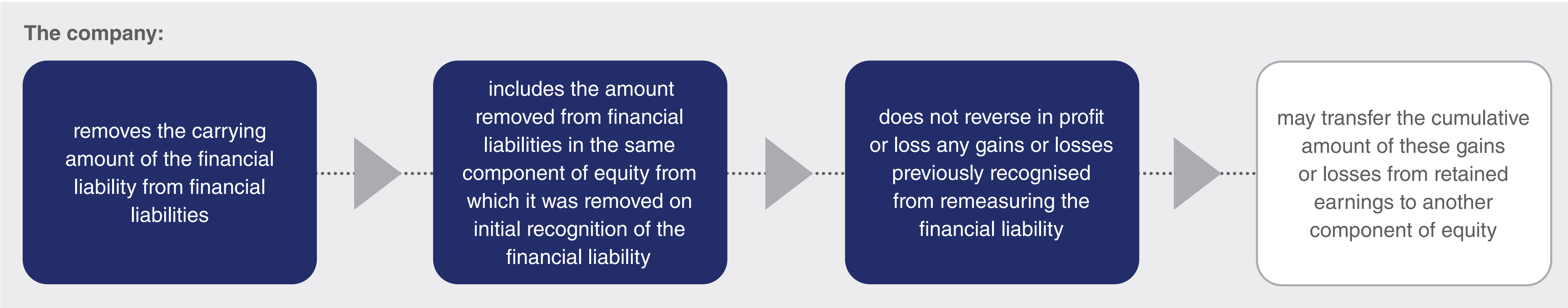
1 Classification of financial instruments

C—Obligation to purchase a company's own equity instruments

Expiration without delivery

The IASB proposes to clarify the requirements in IAS 32 that apply if a contract that includes an obligation for a company to purchase its own equity instruments expires without delivery (see Figure 1).

Figure 1—Expiration without delivery



1 Classification of financial instruments

D—Contingent settlement provisions

What is the issue?

In accordance with IAS 32, a company classifies a financial instrument as a financial liability if it requires the delivery of cash or another financial asset upon the occurrence (or non-occurrence) of an uncertain future event beyond the control of both the issuer and the holder of the instrument. The instrument is a financial liability because the issuer does not have the unconditional right to avoid payment, unless:

- the contingent settlement provision is not genuine; or
- the obligation is settled in such a way that it would be a financial liability only in the event of liquidation of the issuer.

Stakeholders asked the IASB to clarify:

- whether a company classifies a financial instrument that has both a liability and an equity component and contains a contingent settlement provision as a compound financial instrument or a financial liability in its entirety;
- whether the company considers the probability or the estimated timing of settlement for measurement purposes;
- whether the company recognises discretionary payments in equity, even if the equity component of a compound instrument has no value; and
- the meaning of the terms ‘not genuine’ and ‘liquidation’ in IAS 32 (see page 10).

What is the IASB proposing?

The IASB proposes to clarify in IAS 32 that:

- financial instruments with contingent settlement provisions could be compound instruments;
- when measuring the financial liability (initial and subsequent measurement), a company disregards the probability and estimated timing of the contingent event occurring, and discounts the settlement amount to its present value assuming that the settlement will occur at the earliest possible date; and
- a company recognises payments that are at its own discretion in equity, even if the equity component has an initial carrying amount of zero.

Classification of financial instruments

D—Contingent settlement provisions

Meaning of ‘not genuine’ and ‘liquidation’

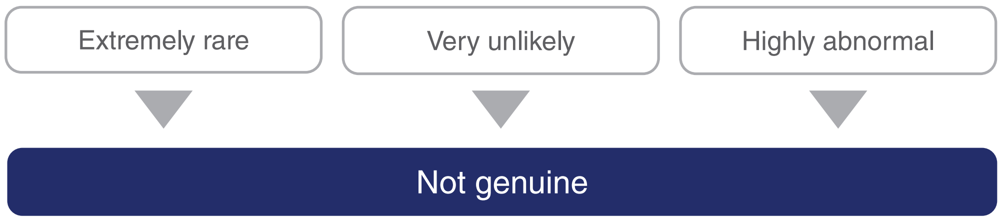
The IASB proposes to clarify in IAS 32 the meaning of the terms ‘not genuine’ and ‘liquidation’.

Not genuine

Assessing whether a contingent settlement provision is not genuine requires judgement based on the specific facts and circumstances (including the terms and conditions of the instrument) and is not based solely on the probability of the contingent event occurring.

A settlement provision based on a very unlikely contingent event could be genuine if the nature of the contingent event is neither extremely rare nor highly abnormal (Figure 2).

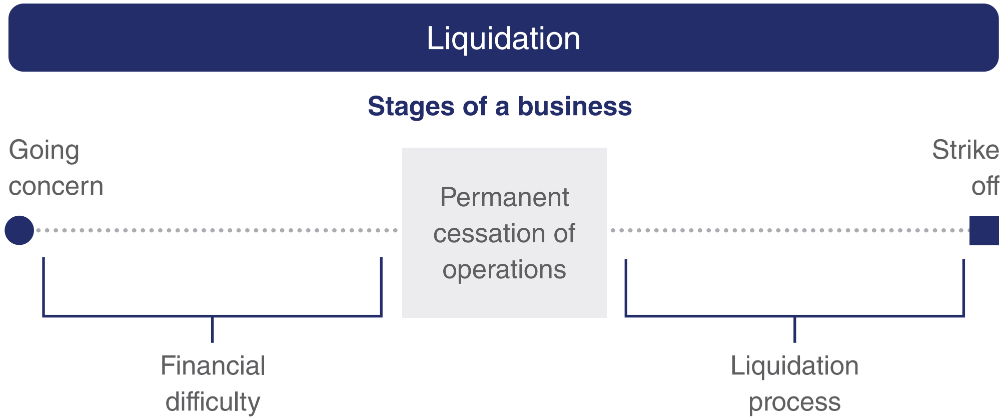
Figure 2—Not genuine



Liquidation

For the purposes of classifying a financial instrument as a financial liability or an equity instrument, the term liquidation refers to the process that begins after a company has permanently ceased its operations (Figure 3).

Figure 3—Liquidation



1 Classification of financial instruments

E—Shareholder discretion

What is the issue?

When applying IAS 32 to classify a financial instrument as a financial liability or an equity instrument, a company considers whether it has an unconditional right to avoid delivering cash or another financial asset (or otherwise to settle the instrument in such a way that it would be a financial liability). In some cases, the settlement is at the discretion of the company's shareholders.

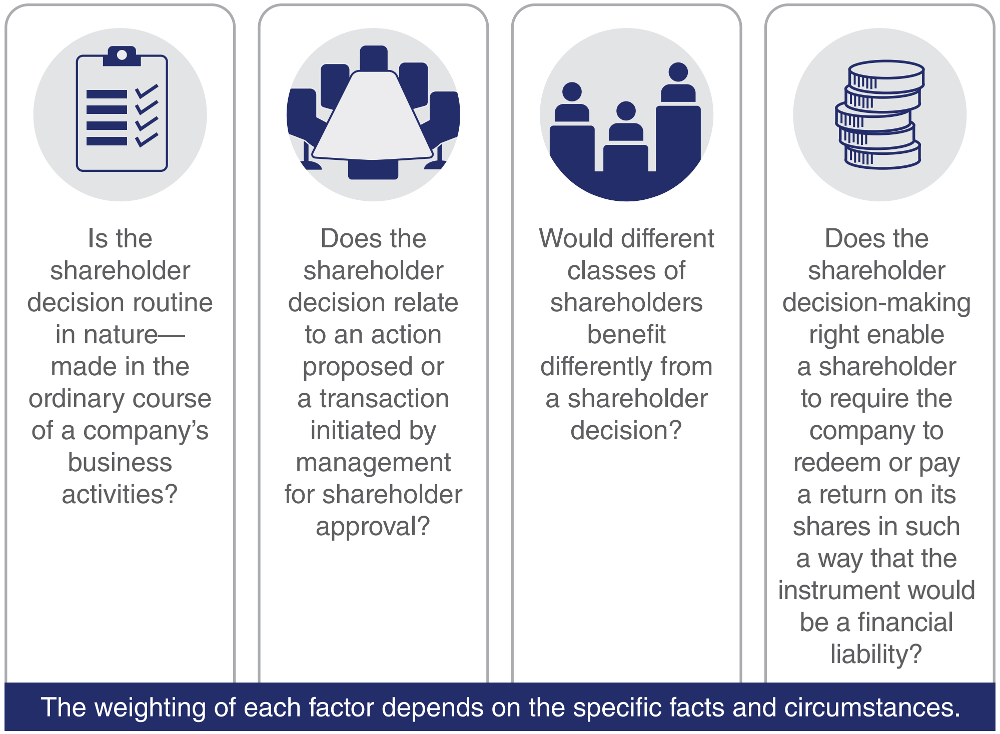
> Stakeholders asked the IASB to clarify whether a shareholder decision can be treated as a company decision.

What is the IASB proposing?

The IASB proposes to clarify in IAS 32 that a company is required to use its judgement to assess whether shareholder decisions are treated as company decisions that result in the company having an unconditional right to avoid delivering cash or another financial asset (or otherwise to settle the instrument in such a way that it would be a financial liability).

Figure 4 shows some of the factors a company is required to consider when making that judgement.

Figure 4—Factors for consideration



1 Classification of financial instruments

F—Reclassification of financial liabilities and equity instruments

What is the issue?

IAS 32 requires the issuer of a financial instrument to classify the instrument as a financial liability or equity instrument on initial recognition, based on the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

However, the Standard does not contain any general requirements as to whether or when a company reclassifies an instrument after initial recognition.

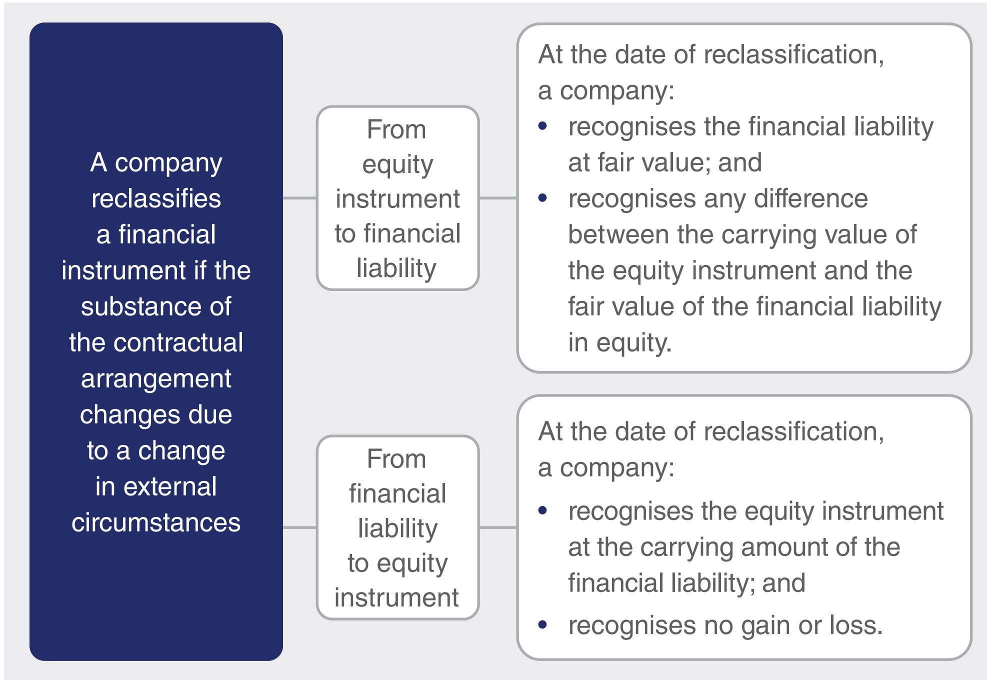
Stakeholders asked the IASB to clarify:

- whether and, if so, when a company reclassifies a financial liability or equity instrument; and
- how a company accounts for such reclassifications, including the recognition of any resulting gains or losses.

What is the IASB proposing?

The IASB proposes to require in IAS 32 that a company not reclassify a financial liability or equity instrument after initial recognition unless the substance of the contractual arrangement changes because of a change in circumstances external to the contractual arrangement—for example, a change in a company's functional currency or a change in a company's group structure (Figure 5).[1]

Figure 5—Reclassification



1 IAS 32 requirements for the reclassification of puttable instruments and instruments that impose on a company an obligation to deliver to another party a pro rata share of its net assets only on liquidation remain unchanged.

2 Disclosures

A—Scope and objective of IFRS 7

What is the issue?

IFRS 7 does not require a company to disclose any specific information about its equity instruments or equity components of compound instruments that are within the scope of IAS 32. Equity instruments are not remeasured and do not expose the issuing company to balance sheet risk or income statement risk.

Stakeholders welcomed the disclosure requirements the IASB proposed to add to IFRS 7 in the Discussion Paper *Financial Instruments with Characteristics of Equity* (Discussion Paper). The proposed requirements related to:

- the nature and priority of claims against a company on liquidation;
- the terms and conditions of financial liabilities and equity instruments; and
- the potential dilution of ordinary shares.

What is the IASB proposing?

The IASB has refined some of the disclosure requirements in the Discussion Paper, which were developed to require a company to disclose useful information about how the timing, amount, nature and uncertainty of future cash flows of its financial instruments could be affected.

The IASB proposes to expand the objective and scope of IFRS 7 to include equity instruments that are within the scope of IAS 32. The IASB also proposes additional disclosure requirements based on its deliberations on the classification and presentation topics.

2 Disclosures

B—Nature and priority of claims on liquidation, arising from financial instruments

What is the issue?

Many companies issue financial liabilities or equity instruments (either individually or in combination) to finance their business activities and the acquisition of their assets. Many of these instruments are complex financial instruments with characteristics of both a financial liability and an equity instrument. The combination of these characteristics varies among instruments, resulting in instruments having various levels of subordination on a company's liquidation.

The debt-to-equity ratio has been a core part of understanding a company's sources of financing and the nature and priority of claims on liquidation. However, the development of complex financial instruments has resulted in new ways of distributing risks and returns between various types of instrument holders that might not be reflected in traditional solvency and liquidity ratios.

Investors asked for:

- more transparency regarding a company's financing structure; and
- information about the nature of any claims against a company on liquidation, arising from financial instruments issued by the company.

What is the IASB proposing?

The IASB proposes to require in IFRS 7 that a company disclose the nature and priority of claims against the company on liquidation, arising from its financial liabilities and equity instruments.

The proposed disclosures comprise:

- the carrying amount of each class of claim and the line item in the statement of financial position in which each class of claim is included;
- classes of claims determined based on their nature and priority on liquidation, at a minimum, with a clear distinction between:
  - o secured and unsecured claims; and
  - o contractually subordinated and unsubordinated claims; and
- separate disclosure of financial liabilities and equity instruments issued by the parent company and those issued by subsidiaries in consolidated financial statements.

2 Disclosures

C—Terms and conditions of financial instruments

What is the issue?

If a financial instrument has the characteristics of both a financial liability and an equity instrument, it can be difficult for investors to understand which of the instrument's characteristics have been used to classify it as a financial liability or an equity instrument.

Investors asked the IASB to require a company to disclose more information about the terms and conditions of financial instruments that affect the nature, amount, timing and uncertainty of cash flows arising from these financial instruments. Such terms and conditions include those that:

- determine the classification of the financial instrument;
- are not representative of the classification of a financial instrument but are relevant to an understanding of its nature; and
- depict an instrument's priority on liquidation of a company.

What is the IASB proposing?

The IASB proposes to require in IFRS 7 that a company disclose the terms and conditions of financial instruments and how they affect the nature, amount, timing and uncertainty of the instrument's cash flows.

The proposed disclosures comprise:

- the terms and conditions that determine classification of financial instruments with characteristics of both a financial liability and an equity instrument;
- information about the 'debt-like characteristics' of instruments classified as equity instruments (see page 16);
- information about the 'equity-like characteristics' of instruments classified as financial liabilities (see page 16);
- the terms and conditions affected by the passage of time (see page 17);
- the terms and conditions of compound instruments (see page 17); and
- the terms and conditions that depict the priority on liquidation, for each class of financial instruments with characteristics of both a financial liability and an equity instrument (see page 17).

2 Disclosures

C—Terms and conditions of financial instruments

Debt-like characteristics

An equity instrument with debt-like characteristics has:	
terms and conditions that might result in a company making payments to the instrument holder of fixed or determinable amounts based on a market rate of interest, on specified dates. Although the company has the contractual right to avoid these payments (or defer them until liquidation)—and therefore the instrument is classified as an equity instrument—the expected amount and timing of the cash flows arising from the instrument are similar to those of a typical financial liability.	
Example	
An irredeemable preference share with fixed cumulative coupons on specified coupon dates and a fixed principal amount—all payable only on liquidation.	
Classification	Equity—the company has the contractual right to defer cash payment until liquidation.
Debt-like characteristic	Fixed and determinable coupon and principal payments.

Equity-like characteristics

A financial liability with equity-like characteristics has:	
terms and conditions that might result in a company making payments to the instrument holder of amounts that are variable or indeterminable, or that might not occur on specified dates. Such characteristics include, for example: • payments that are directionally consistent and based on the company's profit or share price; • a principal amount that is subordinated to other obligations or is reduced to absorb losses from an adverse change in the company's financial position; • the delivery of a company's own equity instruments to settle an obligation; and • the right to defer payment of coupons to the instrument holder for a specified period.	
Example	
An instrument that requires payment of amounts that are directionally consistent with and based on the issuing company's profit.	
Classification	Liability—the company has no contractual right to avoid cash payment.
Equity-like characteristic	Payments are similar in nature to a 'dividend payment' based on the company's profit.

2 Disclosures

C—Terms and conditions of financial instruments

The IASB proposes to require in IFRS 7 that a company disclose information about compound financial instruments, terms and conditions of an instrument that are affected by the passage of time, and terms and conditions relating to an instrument's priority on liquidation.

Compound financial instruments

The proposed disclosures comprise:

- information about terms and conditions of the instrument that determine its classification at initial recognition as a compound financial instrument with separate financial liability and equity components; and
- the amounts initially allocated to the financial liability and equity components in the reporting period in which the instrument is initially recognised.

Passage of time—terms and conditions

The proposed disclosures comprise:

- information about terms and conditions that become, or stop being, effective with the passage of time before the end of the financial liability's contractual term and do not cause the reclassification of the instrument.

Priority on liquidation—terms and conditions of financial instruments with characteristics of both a financial liability and an equity instrument

The proposed disclosures comprise:

- terms and conditions of a financial instrument that depict its priority on liquidation, including those that could result in a change in priority on liquidation;
- information about multiple levels of contractual subordination in a class of financial instruments;
- information about any significant uncertainty about how applicable laws or regulations could affect a financial instrument's priority on liquidation; and
- a description of any intra-group arrangements, such as guarantees, that might affect a financial instrument's priority on liquidation.

2 Disclosures

D—Potential dilution of ordinary shares

What is the issue?

The IASB identified a need for more information to assess the maximum potential dilution of ordinary shares arising from financial instruments that could be settled in ordinary shares, such as convertible bonds and derivatives on a company's own equity instruments. Information about such potential dilution would be useful to both existing and potential investors in a company's ordinary shares.

Investors asked the IASB for information about:

- how a company distributes its returns to ordinary shareholders;
- how the company has financed its operations in the past; and
- how the company's ownership structure might change in the future when settling financial instruments issued at the reporting date.

What is the IASB proposing?

The IASB proposes to require in IFRS 7 that a company disclose the potential dilution to the company's ownership structure resulting from financial instruments issued at the reporting date.

The proposed disclosures comprise:

- the maximum number of additional ordinary shares a company might be required to deliver for each class of potential ordinary shares outstanding at the end of the reporting period (see page 19);
- a description of contracts or other commitments to repurchase ordinary shares and the minimum number of each class of ordinary shares the company is required to repurchase (see page 19);
- a description of the causes of any important changes in the information disclosed in accordance with the first two requirements from the prior reporting period, including how those causes contributed to the changes; and
- a description of the terms and conditions of contracts that are relevant in understanding the likelihood of the maximum dilution of ordinary shares for each class of potential ordinary shares outstanding at the end of the reporting period (see page 19).

2 Disclosures

D—Potential dilution of ordinary shares

Net maximum number of additional ordinary shares

The IASB proposes to require in IFRS 7 that a company disclose information about the potential dilution in a table, to the extent possible. The table would also contain, for each class of ordinary shares:

- the total maximum number of additional ordinary shares the company might be required to deliver—the sum of the amounts disclosed; and
- the net maximum number of additional ordinary shares the company might be required to deliver, calculated as the total maximum number of additional ordinary shares minus the minimum number of ordinary shares it is required to repurchase.

An illustrative example of such a disclosure is provided in Table 1 for reference.

Table 1—Net maximum number of additional ordinary shares

Instruments	Maximum number of additional ordinary shares	Terms and conditions relating to the instrument or transaction
Convertible Bonds (A and C)	600	Holder has an option to convert the bonds at a specified conversion date using a specified conversion ratio of currency unit (CU)15 per share and CU12 per share for Convertible Bonds A and C respectively.
Convertible Bond B	250	In the event of a change of control of the Company before the conversion date, the conversion ratio of CU9 per share is adjusted downwards to a predetermined price of CU8 per share.
Contingently Convertible Bond D	50	Conversion at a ratio of CU20 per share is contingent on the occurrence of Non-viability Event Y. The bond is redeemable at the option of the issuer for cash.
Mandatorily Convertible Note E	100	The note is subject to a cap of 100 shares and a floor of 10 shares.
Number of share options in the scope of IFRS 2 outstanding at reporting date	100	Refer to Note X (IFRS 2 disclosures on share options).
Number of known unvested shares from share awards in the scope of IFRS 2 at reporting date	100	Refer to Note Z (IFRS 2 disclosures on share awards).
Maximum number of additional ordinary shares	**1,200**	
Unknown number of additional ordinary shares	unknown dilution from Share-settled Bond F	Number of shares depends on the value of each share at the settlement date.
Total maximum number of additional ordinary shares	**1,200 + unknown dilution from Share-settled Bond F**	
Minus: minimum reduction in the number of ordinary shares		
Share buy-back	(100)	The programme includes a commitment to buy 100–500 own shares.
Net maximum number of additional ordinary shares	**1,100 + unknown dilution from Share-settled Bond F**	

2 Disclosures

E—Financial instruments that include an obligation for a company to purchase its own equity instruments

What is the issue?

Stakeholders asked the IASB to clarify how a company accounts for financial instruments that include an obligation for the company to purchase its own equity instruments (see pages 7–8). The IASB concluded that investors need more information to understand the effect such obligations might have on the company's future cash flows.

What is the IASB proposing?

The IASB proposes to require in IFRS 7 that a company disclose useful information to enable investors to understand the effect these obligations might have on the company's future cash flows.

The proposed disclosures comprise:

- the amount removed from equity and included in financial liabilities on initial recognition of the obligation as a financial liability, and the component of equity from which that amount was removed;
- the amount of any remeasurement gain or loss on the financial liability recognised in profit or loss during the reporting period;
- the amount of any gain or loss recognised on settlement, if the obligation was settled during the reporting period;
- the amount removed from financial liabilities and included in equity if the obligation has expired unexercised during the reporting period; and
- any transfers within equity of amounts related to the obligation during the reporting period and the components of equity from and to which these amounts were transferred.

2 Disclosures

F—Other proposed disclosures

The IASB proposes to require in IFRS 7 that a company disclose information relating to financial liabilities that include contractual obligations to pay amounts based on the company's performance or changes in its net assets; reclassifications of financial instruments as financial liabilities or equity instruments; and judgements the company has made in classifying financial instruments.

Financial liabilities that include contractual obligations to pay amounts based on a company's performance or changes in the company's net assets	Reclassifications of financial liabilities and equity instruments	Judgements
The net gains or losses recognised on these financial liabilities in each reporting period are disclosed separately from the net gains or losses on other financial liabilities measured at fair value through profit or loss in the statement of comprehensive income or in the notes.	The IASB will expand disclosure requirements about reclassifications of financial instruments as financial liabilities or equity instruments to include the reclassifications discussed on page 12 of this Snapshot. A company shall disclose information about: • the amount reclassified as a financial liability or an equity instrument; • the reason for the reclassification; and • the timing of the reclassification.	Significant judgements made in classifying the financial instrument, or its component parts, as a financial liability or as an equity instrument are disclosed.

3 Presentation of amounts attributable to ordinary shareholders

What is the issue?

IAS 1 requires a company to disclose some information that helps investors understand how a company distributes its profits, but does not require a company to present the amounts attributable to ordinary shareholders separately from amounts attributable to other equity holders in the statement of financial position, the statement of comprehensive income and the statement of changes in equity.

Investors expressed a need for more transparent information about the distribution of profits among holders of equity instruments, to help them understand how a company distributes its returns to ordinary shareholders.

What is the IASB proposing?

The IASB proposes to amend IAS 1 to help uses of financial statements understand how a company distributes returns attributable to ordinary shareholders.

The proposed presentation requirements comprise:

- presentation in the statement of financial position of issued share capital and reserves attributable to ordinary shareholders of the parent company separately from other owners of the parent company;
- allocation of profit or loss and other comprehensive income between ordinary shareholders of the parent company and other owners of the parent company in the statement of comprehensive income;
- reconciliation for each class of ordinary share capital and each class of other contributed equity in the statement of changes in equity; and
- separate presentation of dividends relating to ordinary shareholders and those relating to other owners of the company.

4 Transition

The IASB proposes to require a company to apply all proposed amendments retrospectively with the restatement of comparative information (a fully retrospective approach). However, to minimise costs, the IASB proposes not to require the restatement of information for more than one comparative period, even if a company chooses or is required to present more than one comparative period in its financial statements.

The IASB proposes no additional transition requirements for the first-time adopters.

For a company already applying IFRS Accounting Standards, the IASB proposes:

- to require the company to treat the fair value at the transition date as the amortised cost of the financial liability at that date, if it is impracticable (as defined in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) to apply the effective interest method in IFRS 9 *Financial Instruments* retrospectively;
- to require the company to disclose the nature and amount of any changes in classification resulting from initial application of the amendments;
- to not require the company to separate the components if the financial liability component of a compound financial instrument with a contingent settlement provision was no longer outstanding at the date of initial application;
- to not require companies to provide the quantitative disclosures in paragraph 28(f) of IAS 8; and
- to not provide specific transition requirements in relation to IAS 34 *Interim Financial Reporting* for interim financial statements issued within the annual period in which the company first applies the amendments.

5 Subsidiaries without Public Accountability: Disclosures

What is the issue?

[IFRS XX *Subsidiaries without Public Accountability: Disclosures*] will permit eligible subsidiaries to apply the recognition and measurement requirements in IFRS Accounting Standards with reduced disclosures.

The IASB identified that if the proposed amendments in this Exposure Draft are finalised and become effective, eligible subsidiaries will need to apply these amendments. Therefore, the IASB considered it necessary to have the subsidiary-specific disclosures available at the same time.

The IASB proposes amendments to the prospective Standard [IFRS XX], which will be issued before the proposals in this Exposure Draft are finalised.

What is the IASB proposing?

In accordance with the IASB's agreed principles in [IFRS XX] for reducing disclosures, the IASB has considered the proposed amendments to IFRS 7 and selected disclosure requirements appropriate for subsidiaries eligible for reduced disclosures.

Proposed disclosures in the scope of [IFRS XX] include disclosures relating to:

- the nature and priority of claims on liquidation, arising from financial instruments (see page 14);
- financial instruments with characteristics of both a financial liability and an equity instrument and terms and conditions that become, or stop being, effective with the passage of time (see pages 16–17);
- financial instruments that include an obligation for a company to purchase its own equity instruments (see page 20);
- financial liabilities that include contractual obligations for a company to pay amounts based on its performance or changes in its net assets (see page 21); and
- information about judgements a company has made in classifying an instrument as a financial liability or as an equity instrument (see page 21).

6 Information for respondents

The deadline for comments on the Exposure Draft is 29 March 2024

You can submit comments on our Open for comment page.

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Exposure Draft package

The Exposure Draft package includes:

- the IASB's detailed proposals, in the form of draft amendments to IFRS Accounting Standards;
- the Basis for Conclusions on the Exposure Draft, which summarises how the IASB developed its proposals;
- proposed non-mandatory illustrative examples and implementation guidance; and
- questions for respondents.

This document

This Snapshot has been compiled by the IFRS Foundation for the convenience of interested parties. The views expressed in this document are those of the staff who prepared it and are not necessarily the views or the opinions of the IASB.

The content of this Snapshot does not constitute advice and should not be considered as an authoritative document issued by the IASB.

Official pronouncements of the IASB are available in electronic format to premium subscribers.

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